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Europe: On to a smaller canvas

By Tony Barber

Even if France and Germany salvage some unity for the EU, the bloc seems set to gravitate towards a central core

Less is more: a Moreau le Jeune illustration of the medieval empire of Charlemagne, focused on France, Germany, the Benelux countries and northern Italy, which some see as a model for a slimmed-down Europe

"Let Europe be whole and free."

George Bush senior, the former US president, made the above remark in the German city of Mainz in May 1989 as the cold war melted away, permitting democracy and national sovereignty to replace Soviet-imposed communism in central and eastern Europe. Twenty-three years later, as Spain becomes the fourth eurozone economy in two years to request an international financial rescue, the dream of a united Europe exists, much dimmed, next to a nightmare scarcely conceivable in 1989: a continent torn asunder by an ever expanding sovereign debt and banking crisis.

To a certain extent, Mr Bush's vision of a community of free European nations came true around the turn of the millennium. East merged with west under the twin umbrellas of the EU and Nato. The union's 27 states – 28 next year with Croatia's admission – boast pluralistic political systems and, for the majority of citizens, adequately protected civil liberties. However, the financial crisis is testing as never before the resilience of Europe's welfare state-based democracies and the durability of the post-1945 integration process.

If Europe's leaders were to fail to pass this test, the potential repercussions for the world, and for Europe's place in it, would go beyond even the grim forebodings in business and financial circles of devastated banking systems and international economic disorder. "The immediate consequence of the eurozone crisis is the degradation of the reputation of the European Union as a whole on two counts: as a model of competent economic policy management and as a model of enlightened regional integration," says Michael Emerson of the Brussels-based Centre for European Policy Studies think-tank.

Despite the emergence of regional trade and economic blocs in Africa, the Americas and Asia, no region in the world has attempted to pool national sovereignties in as ambitious a fashion as the EU has done. No region identifies itself so closely with the ideals of a rules-based international order and an emphasis on trade, aid and "soft power" as opposed to military force. The collapse of its grand experiment – a form of peaceful co-operation that limits the powers of nation-states but does not extinguish national identities – would serve as a cautionary tale for political leaders in other continents.

The launch of the euro in 1999 was a self-conscious effort to accelerate Europe's unification and extend its influence. In the present crisis the danger is that doing too little, too late will fracture the eurozone, undermine the single European market, push the EU to the international margins and, 55 years after the founding Treaty of Rome, leave the project of European integration in ruins.

The EU's fragmentation would undermine the aspirations of policy makers who promised the bloc would emerge as a coherent political entity that could stake its claim to economic and diplomatic influence in its dealings with individual powers such as the US, China, India and Russia.

Financially hard-pressed voters, aggrieved at job losses, the erosion of the welfare state and rising levels of non-European immigration, heed the siren calls of anti-establishment political parties fired by economic populism and xenophobia. Mainstream politicians, seeking to shore up their support, borrow the intemperate language of their upstart opponents.

The push for political union

If closer economic union holds the key to overcoming the eurozone crisis, many policy makers argue that a political union to close Europe's "democratic deficit" will also be required.

With monetary policy controlled by the European Central Bank, and budgetary supervision

In most states, the general public continues to imagine politics in national rather than pan-European terms. The democratic distance between EU institutions and voters has never been greater. The crisis threatens to unstitch the fabric of integration by focusing the frustrations of northern and western voters – Dutch, French and Germans – on poorer southern and eastern neighbours – Greeks, Poles and Romanians.

In economic terms certain countries control their destinies even less securely than they did during Mr Bush's 1989-93 presidency. Greece, Ireland and Portugal labour under strict foreign increasingly in the hands of unelected authorities in Brussels, influence over economic policy making has drifted away from national legislatures and voters.

The steady transfer of powers to the European parliament has failed to compensate: the legislature lacks the full range of powers found in traditional parliaments and its remoteness from citizens is reflected in turnouts that have fallen at every vote since direct elections to the assembly began in 1979.

The Germans contend that stronger democratic controls should promote closer union. They are not proposing a a European superstate. Instead, a set of proposals endorsed last November by a congress of the ruling Christian Democratic Union shows how the country's leaders imagine a future political union.

The CDU wants the president of the European Commission, the EU's executive body, to be directly elected by all the bloc's citizens. It wants a bicameral legislature in which the European parliament would sit as a directly elected people's chamber; the Council of Ministers, which groups EU government representatives, would sit as a kind of upper house.

The Germans also seek a radical departure in proposing that both chambers could initiate legislation, while parliament currently just shapes and approves it. Another CDU idea is to change the parliament's representation so that countries with larger populations, such as Germany itself, obtain more seats.

The crisis of legitimacy is prompting some old Brussels hands to argue that the 17 eurozone countries should set

supervision, exacted as the price for multibillion-euro financial rescues. Spain and Italy pursue austerity programmes, drawn up partly under external pressure, that crush economic growth and drive up unemployment but do little to ease punitive borrowing costs on financial markets.

In its first decade of life, an era marked by a glut of cheap credit on world capital markets, the euro contributed to continental integration by encouraging cross-border investment flows among the single currency's member states, now numbering 17. But fear of a eurozone break-up is renationalising markets as investors withdraw funds from "partner" countries and park them at home. Large-scale purchases of Italian and Spanish government bonds by Italian and Spanish financial institutions have created an alarmingly close connection between sovereigns and banks that must be broken to dispel the risk that both are destroying the other.

Some European leaders toy with the thought that it might be easier to stabilise the eurozone if Greece – viewed in certain capitals as an incorrigible example of corruption, profligacy and political infantilism – were to leave. Apart from the danger that uncontrollable financial contagion would spread to other countries, such a step would risk profound political consequences. It would be the first time since 1945 that a country had joined and then abandoned the European integration process – and not just any country, but one idealised as the *fons et origo* of European civilisation.

After that, it would be impossible to present integration as an irreversible project involving all of Europe. In truth, a slimmed-down ideal of unification was already in the minds of EU leaders when they agreed the 2009 Lisbon treaty, which for the first time established the possibility that a country could withdraw from the bloc. Many UK politicians, overwhelmingly English, would like to do just that.

Doubts also exist about how far western European politicians conceive of integration as a scheme embracing all the EU's ex-communist states. They bemoan Hungary's drift from the EU's democratic standards and condemn corruption and organised crime in Bulgaria and Romania. They have won wider powers to up their own legislative arrangements as part of an avant garde push for closer integration.

But such a breakaway move might undermine the integrity of the single European market and, ultimately, the EU itself.

reinstate frontier controls in Europe's Schengen border-free travel regime, a cornerstone of integration.

For some in EU founder member states, the ideal of unity is not the Roman empire, which included London and Constantinople within its boundaries, but Charlemagne's medieval empire, consisting essentially of France, the Benelux countries, Germany and northern Italy.

Yet even a smaller Europe would have to grapple, as the EU does today, with low long-term economic growth rates, excessive debt, demographic stagnation, overburdened pension systems and competition from rising non-European powers. The question of national security and military expenditure arises, too. With the US focusing its efforts increasingly on the Asia-Pacific, European governments will need to step up defence contributions at a time of unrelenting pressure on public finances and popular resistance to welfare cutbacks. That will be hard.

Nemat Shafik, the International Monetary Fund's deputy managing director, said last month that "increased social and political tensions are threatening to undermine public support for the very reforms that are meant to put the economies back on track". Yet precisely because the economic overhaul of Europe is a long-term task, such tensions will persist. It may prove hard for the mass political parties that have governed Europe since 1945 – social democratic, centrist and centre-right – to maintain control in the face of radical, unconventional challengers that are attracting support from Austria and Finland to the Netherlands and Italy.

All is not lost, insist EU policy makers. The bloc remains one of the globe's most affluent regions and a formidable actor in the enforcement of world trade rules and business regulation. Its insistence on including non-European airlines in its plan for limiting carbon emissions drew the double-edged comment last month from Vladimir Chizhov, Russia's EU ambassador, that "some people compare the EU with a crocodile. Not because of its teeth, but because of its inability to move backwards".

As for the eurozone's future, the crisis has intensified calls for closer integration. Proposals for a road map to fiscal union will be presented at an EU summit on June 28-29, before which France is set to push for added firepower for bank recapitalisation.

Initiatives under consideration include enhanced pan-European banking supervision, a common deposit insurance scheme and a joint bank resolution fund for the restructuring or closure of failing financial institutions. Furthermore, political support for the introduction of jointly guaranteed eurozone bonds has broadened since the election on May 6 of François Hollande as France's president. If agreed, such steps would complement the new German-inspired rules that commit the eurozone to seemingly perpetual fiscal rigour.

But fiscal union is a medium-term goal and the path towards it is tough. Few large EU countries are in the mood to increase the bloc's annual budget – about €129bn this year, or 1 per cent of annual EU economic output. Eurozone bonds, a banking union and tougher disciplinary powers for the overlords in Brussels clash with the need for a fiscal union to have democratic legitimacy – and with the defence of national wealth, pride and sovereignty in each member state.

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German politicians, bankers and voters view southern European countries as desperate to piggyback on Berlin's solid financial credentials and lacking in the stamina and moral fibre required to accept disagreeable economic reforms. France is suspected in Berlin of being unwilling to sacrifice national autonomy to the extent necessary to make a reality of European political union.

Other countries, by contrast, resent Germany's monotonous homilies. They complain Germany lacks European solidarity and even acts against its own interests, given the benefits of the euro for German business.

These frictions surfaced after the election victory of Mr Hollande, a Socialist who promised voters economic growth and social protection as opposed to German-style thrift. Volker Kauder, parliamentary leader of the Christian Democratic party of Angela Merkel, Germany's chancellor, admonished: "Germany is not here to finance French election promises." Retorted Benoît Hamon, Mr Hollande's spokesman: "We didn't have an election to get a European president called Frau Merkel who has the power to decide everyone else's fate."

Franco-German differences are nothing new in EU history. It is possible the two nations will again find a way to keep alive some version of European unity. But if they do, it will be a political federation or fiscal union limited in scope. Nor will all 27 existing EU member states be part of it. If Europe's luck holds, it will in the future be free. But it will be something less than whole.